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Paper-1

Topic: Excess capacity and Reserve capacity

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Excess capacity and Reserve capacity

Excess capacity

Reserve Capacity.

→ It does not provide any flexibility to the plant &c to the Traditional Theory of cost.

→ It provides maximum flexibility to the plant.

→ It arises with the U-shaped cost curve &c to the Traditional theory of cost.

→ It arises with the saucer shaped curve &c to modern theory of cost.

→ If a firm designed to produce less than the optimum level then there is "excess capacity" will create.

→ In the given graph:

Reserve capacity = $X_1 X_2$

→ In the given graph; Excess capacity = $X_m - X$

→ It shows range of output i.e., " $X_1 X_2$ " entrepreneur expect to operate the firm under this range.

X_m = optimum level of output
 X = actual production of the firm.

(output)

IMPORTANT NOTES → It refers production at a point. i.e., "X"

→ feature of Monopoly.